

REPORT ON EXAMINATION

OF THE

INVESTORS INSURANCE CORPORATION

AS OF

DECEMBER 31, 2004

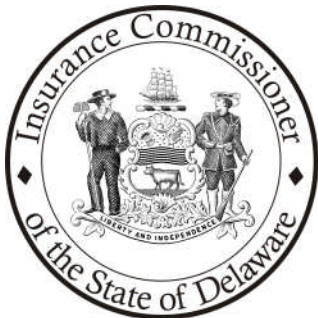
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2004 of the

INVESTORS INSURANCE CORPORATION

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 22 JUNE 2006



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 22ND DAY OF 2006.

Matthew Denn

Insurance Commissioner

REPORT ON EXAMINATION
OF THE
INVESTORS INSURANCE CORPORATION
AS OF
December 31, 2004

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 22ND Day of JUNE 2006.

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SALUTATION

April 25, 2006

Honorable Alfred W. Gross
Chairman, NAIC Financial
Condition Committee
2301 McGee, Suite 800
Kansas City, Missouri 64108-2604

Honorable Matthew Denn, Commissioner
Delaware Department of Insurance
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 05-028, dated September 13, 2005 an Association examination has been made of the affairs, financial condition and management of the

INVESTORS INSURANCE CORPORATION

hereinafter referred to as "Company," incorporated under the laws of the State of Delaware as a stock company with its home office located at Rodney Square North, 11th and Market Streets Wilmington, Delaware. The examination was conducted at the principal office of the Company, initially located at 3030 Hartley Road, Suite 390, Jacksonville, Florida, and later located at 8380 Baymeadows Boulevard, Suite 12, Jacksonville, Florida.

The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covered the period from January 1, 2002 through December 31, 2004, and consisted of a general survey

of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

In addition to the noted items in this report, the following were reviewed without exception and are included in the files of this examination:

- Fidelity Bonds and Other Insurance
- NAIC Ratios
- Legal Actions
- Commitments and Contingent Liabilities
- Risk Based Capital
- All Asset and Liability Items not Mentioned

This report is presented on the exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible Company officials during the course of the examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, an information systems review was performed by the consulting firm of INS Services, Inc.

The 2001 examination was conducted by the Delaware Insurance Department in accordance with the Association Plan of Examination guidelines established by the NAIC.

HISTORY

Investors Insurance Corporation of Delaware (Investors of Delaware) was incorporated on June 22, 1987 and commenced business July 16, 1987. In November 1987, Investors of Delaware entered into an exchange transaction with I.I.C., Inc. (Oregon). The outstanding stock of Investors of Delaware was exchanged for the outstanding stock of Investors of Oregon, which was then owned by I.I.C., Inc. Investors of Delaware and Investors of Oregon then merged and became one entity known as Investors Insurance Corporation (“Investors or Company”), a wholly-owned subsidiary of I.I.C., Inc. The ultimate parent was Investors Insurance Group (IIG), formerly known as GEMCO National Inc.

In 1993 a note, secured by the stock of this Company, was given to National Heritage Life Insurance Company (NHL). IIG began experiencing liquidity problems and, in 1996, stopped making interest payments on the note. Default occurred on the March 31, 1997 principal payment and NHL foreclosed on the collateral. Therefore, Investors was then owned by NHL.

The Delaware Insurance Commissioner had been appointed Liquidator of NHL on November 21, 1995. Therefore, the Delaware Insurance Commissioner, as Receiver in the Liquidation of NHL, became the owner of the Company on May 22, 1998. On August 20, 1998, the Delaware Insurance Commissioner approved the purchase of 100% of the voting securities of the Company by the Credit Suisse Group through its subsidiary Winterthur Life Re Insurance Company.

On December 18, 1998, the Delaware Insurance Commissioner approved the purchase of the U.S. life and non-life subsidiaries of the Credit Suisse Group, including Winterthur Life Re Insurance Company, by Partner Re Ltd. through its subsidiary Partner Re U.S. Corporation.

Partner Re Ltd. was a holding company incorporated August 24, 1993 under the laws of Bermuda.

On August 2, 2000, the Company was purchased by SCOR Life U.S. Re Insurance Company. SCOR Life U.S. Re Insurance Company is a Texas company and is a wholly-owned subsidiary of SCOR Financial Services Ltd., which is organized under the laws of Ireland and is a wholly-owned subsidiary of SCOR Vie, a stock company domiciled in Paris, France. The ultimate parent company is SCOR, a stock company domiciled in Paris, France. The purchase was approved by the Delaware Insurance Commissioner.

The Company's Certificate of Authority in Delaware was issued January 20, 1988 and authorizes the Company to transact the business of life insurance, including annuities, variable annuities, and health insurance.

CAPITALIZATION

At the date of the last examination, the Company had issued and outstanding 750 shares at \$3,400 par value per share for a total of \$2,550,000. That amount was unchanged during this examination period.

The original total number of shares authorized under the Company's Certificate of Incorporation allowed for the issue of 2,000,000 shares with a par value of \$1 each for a total of \$2,000,000. On October 31, 1991, a plan of recapitalization was approved whereby the authorized number of shares of stock was reduced to 1,000 shares of common capital stock, each with a par value of \$2,000. On January 5, 2000, the Delaware Department of Insurance approved an amendment to the Articles of Incorporation to change the par value of each share of the 1,000 shares of common capital stock to \$3,400 for the purpose of meeting the minimum

capital and surplus required by California insurance statutes. The change in par value was effected by the transfer of \$1,050,000 from Gross Paid In and Contributed Surplus to Common Capital Stock.

At the date of the last examination, the Company reported Gross Paid In and Contributed Surplus of \$7,709,605. On December 23, 2003, SCOR Life Re, the Company's immediate parent, contributed \$15,000,000 in cash to the Company. Therefore, at the date of this examination Gross Paid In and Contributed Surplus amounted to \$22,709,605.

MANAGEMENT AND CONTROL

The bylaws were amended twice and the Articles of Incorporation were restated during this examination period.

On March 19, 2003, the bylaws were amended by resolution of the Board of Directors. This amendment was in response to findings of the previous examination and contained several provisions as follows:

- The annual meeting of stockholders shall be held on a day and at a place and time set by the Board of Directors between May 1 and July 31 each year.
- Regular meetings of the Board of Directors shall be held immediately following the annual meeting of stockholders and at such intervals and on such dates as the Board may designate.
- The salaries of all officers and agents shall be fixed by resolution of the Board of Directors unless the Board shall authorize one or more officers to fix such salaries.
- The fiscal year of the Company shall be from January 1 to December 31 each year.

This amendment to the bylaws was not properly disclosed in the General Interrogatories of the 2003 Annual Statement nor was the amendment filed with the Delaware Department of Insurance.

On June 15, 2004, the bylaws were amended by resolution of the Board of Directors. This amendment changed the number of directors from not less than seven or more than twenty to one. This amendment to the bylaws was not properly disclosed in the General Interrogatories of the 2004 Annual Statement nor was the amendment filed with the Delaware Department of Insurance.

On September 22, 2004, the Articles of Incorporation were restated by resolution of the Board of Directors. The Restated Articles of Incorporation of the Company, restated as of June 22, 1987, with subsequent amendments thereto, were incorporated and restated to form the Restated Articles of Incorporation of the Company as of September 22, 2004. This restatement was not properly disclosed in the General Interrogatories of the 2004 Annual Statement nor was the restatement filed with the Delaware Department of Insurance.

The previous examination report recommended that questions in the General Interrogatories of the Annual Statement be answered accurately and that any amendments to the bylaws or Articles of Incorporation be filed with the Delaware Department of Insurance. That recommendation was also contained in the examination report as of December 31, 1998.

Therefore,

It is again recommended that any future change to the bylaws or Articles of Incorporation be properly disclosed in the General Interrogatories of the Annual Statement and that such changes be filed with the Delaware Department of Insurance.

During the examination of corporate records, it was noted that the minutes provided did not indicate that the Board of Directors had reviewed the prior examination report as of December 31, 2001.

Therefore,

It is recommended that the Board of Directors review all examination reports and that the minutes include a record of that review and discussion.

The following constituted the Board of Directors as of December 31, 2004:

Yves Corcos	Rene Lemaire
Romain Durand	Christian Mounis
Denis Kessler, Chair	Susan F. Powell

The bylaws state that the officers of the Company shall be chosen by the directors and shall be a President, Secretary, and Treasurer. The Board of Directors may also choose a Chairman, one or more Vice Presidents and such other officers as it shall deem necessary. The following were elected by the Board of Directors as officers of the Company:

Denis Kessler	Chairman of the Board of Directors
Yves Corcos	Chief Executive Officer
Susan F. Powell	Executive Vice President and Chief Operating Officer
Glenn Thigpen	Senior Vice President, Administration
Romain Durand	President
John M. Brill	Senior Vice President, Treasurer and Chief Financial Officer
Debra Fraser	Vice President, Claims and Disbursements
Karen Smith	Vice President, Marketing and Compliance
Maxine H. Verne	Corporate Secretary and General Counsel
Bruno Latourrette	Assistant Vice President, Reserving and Actuarial Studies
Joanne Moore Howell	Assistant General Counsel and Assistant Corporate Secretary
Lucy Telles	Assistant Secretary

Under Delaware Insurance Statutes Title 18, Section 4919, the Company is required to promptly notify the Delaware Commissioner of Insurance of changes in its officers and directors. It was noted that the Company did not notify the Delaware Department of Insurance of changes in its officers and directors. The previous examination report noted that the Company was not in compliance with Section 4919 and recommended that the Company promptly notify the Delaware Commissioner of Insurance of changes in its officers and directors. That recommendation was also contained in the examination report as of December 31, 1998.

Therefore,

It is again recommended that the Company comply with Section 4919 of the Delaware Insurance Statutes and promptly notify the Delaware Commissioner of Insurance of changes in its officers and directors.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is SCOR, a stock company domiciled in Paris, France. The following is an organizational chart that reflects the identities and interrelationships between the Company, Parent, all affiliated insurers, and other members of the system as of December 31, 2004:

SCOR (Paris, France)

SCOR Deutschland Ruckversicherungs-Actien-Geisellschaft (Germany)

SCOR Italia Riassicurazioni spa (Italy)

SCOR UK Group Limited (United Kingdom)

SCOR (UK) Reinsurance Company Ltd. (United Kingdom)

SCOR Asia Pacific Pte Ltd. (Singapore)

SCOR Reinsurance Company (Asia) Ltd. (Hong Kong)

SCOR Canada Reinsurance Company (Canada)

SCOR Vie

SCOR Financial Services Ltd. (Ireland)

SCOR Life U. S. Re Insurance Co. (Texas)

SCOR Life Insurance Co. (Texas)

Investors Insurance Corporation (Delaware)

Investors Marketing Group, Inc. (Florida)

SCOR U. S. Corporation (Delaware)
Cal Re Management Inc. (California)
SCOR Reinsurance Company (New York)
General Security National Insurance Co. (New York)
General Security Indemnity Company of Arizona
Sorema N. A. Holding Corporation (Delaware)
American Underwriting Managers, Inc. (Georgia)
Commercial Risk Partners Limited (Bermuda)
Commercial Risk Reinsurance Company Limited (Bermuda)
Commercial Risk Re-Insurance Company (Vermont)
Commercial Risk Services (New Jersey)
Irish Reinsurance Partners Holdings Limited (United Kingdom)
Irish Reinsurance Partners Limited (Ireland)

Copies of the "Form B Holding Registration Statements" filed with the Delaware Insurance Department, during the period under examination, were reviewed. This review indicated that the Company has complied with the provisions of Regulation 13 of the Delaware Insurance Statutes.

MANAGEMENT AND SERVICE AGREEMENTS

Agreements with Affiliates

Management and Service Agreement

The Company and its subsidiary, Investors Marketing Group (IMG), entered into a Management Service Agreement effective January 1, 1998, whereby the Company will provide senior management, accounting, and general administrative and insurance administrative services to IMG. This was approved by the Delaware Department of Insurance by letter dated January 16, 1998. In an amendment in March, 2001, IMG appointed the Company as administrator for certain business written in the State of Florida.

The Annual Statement, General Interrogatories, Part 2, Questions 4.1 and 4.2 (previously Questions 3.1 and 3.2) ask if the personnel or facilities are used by any other entity and require

disclosure of the amount of reimbursement. The Company received \$30,000 for 2002, \$11,200 for 2003, and \$2,700 for 2004 from IMG under the above contract.

The sharing of facilities and amount of reimbursements were not properly disclosed in the Annual Statements for 2002, 2003, and 2004. The prior examination report recommended that the Company report all transactions with affiliates as required in the *NAIC Annual Statement Instructions for Life, Accident & Health Companies*. That recommendation was also contained in the examination report as of December 31, 1998.

Therefore,

It is again recommended that the Company properly report all transactions with affiliates as required in the *NAIC Annual Statement Instructions for Life, Accident & Health Companies*.

Service and Expense Allocation Agreement

A Service and Expense Allocation Agreement between SCOR Reinsurance Company, the Company, and several other affiliates was approved by the Delaware Department of Insurance on July 16, 2001. Under the agreement, SCOR Reinsurance Company will provide administrative and management services at a cost not to exceed what the individual parties would have incurred in providing the services individually.

Reinsurance Agreements

Several reinsurance agreements with affiliates are described in the Reinsurance section of this report.

Tax Allocation Agreement

A Tax Allocation Agreement between SCOR Life U.S. Re Insurance Company, SCOR Life Insurance Company, and this Company was approved by the Delaware Department of Insurance November 24, 1998 and became effective December 23, 1998.

Under the Tax Allocation Agreement, the tax charge to this Company shall not be more than the Company would have paid if it had filed on a separate return basis.

Agreements with Non-Affiliates

Investment Advisory Agreement

On December 17, 1991, the Company entered into an Investment Advisory Agreement with an asset management company to act as investment advisor with respect to the assets of the Company only with the prior approval of the Company, except where specific investment parameters are agreed to in advance. It was noted that the Board of Directors reviewed and approved these guidelines several times during the examination period and thereafter.

Custodial Agreement

There is an agreement with an effective date of August 21, 1998, between the Company and a bank, appointing the bank as custodian of all securities. A review of this agreement indicated that it complies with the requirements specified in the *NAIC Financial Condition Examiners Handbook*.

TERRITORY AND PLAN OF OPERATION

Territory

The Company is licensed in the following jurisdictions:

Alaska	Mississippi
Arizona	Missouri
Arkansas	Montana

California	Nebraska
Colorado	Nevada
Delaware	New Mexico
District of Columbia	North Carolina
Florida	North Dakota
Georgia	Ohio
Hawaii	Oklahoma
Idaho	Oregon
Illinois	Pennsylvania
Indiana	South Carolina
Iowa	South Dakota
Louisiana	Tennessee
Maryland	Texas
Massachusetts	Utah
Michigan	Washington
	Wyoming

During this examination period, the Company became licensed in 16 additional jurisdictions which are shown in bold above. Subsequent to the examination date, the Company also became licensed in Connecticut and West Virginia.

Plan of Operation

The Company changed ownership several times during the 1990s, and the Company's plans changed with the changes in ownership. The Company has focused primarily on flexible premium deferred annuities since 1990.

On June 5, 2002, the Company entered into two agreements, a Marketing Agreement and an Administrative Services Agreement, with Legacy Marketing Group (Legacy), a California company. Under these agreements, Legacy markets and administers fixed equity indexed annuities on behalf of the Company with reinsurance provided by SCOR Life Re. The Marketing and Administrative Services Agreements are effective until 2007 and 2008 respectively, and can be automatically renewed for successive terms of one year unless terminated.

Legacy is considered to be a Managing General Agent (MGA) under Delaware Insurance Statutes, Chapter 18 which requires certain clauses in the agreements, a current statutory audit of the MGA, and other provisions. At the examination date, the Company was not in compliance with the requirements of Delaware Insurance Statutes, Chapter 18 as regards this agreement. During the course of the examination, the Company began the necessary steps to be in compliance with the requirements of Delaware Insurance Statutes, Chapter 18.

Therefore,

It is recommended that the Company continue to take steps as are necessary to ensure compliance with all provisions of Delaware Insurance Statutes, Chapter 18 Managing General Agents Act.

At the inception of these agreements it was expected that Legacy would purchase the Company; however, Legacy has not done so. At this time, SCOR is actively seeking to sell the Company.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus</u>	<u>Premiums, Annuity Considerations and Deposits</u>	<u>Net Income</u>
2004	\$ 230,510,954	\$ 24,603,949	\$ 372,872,682	(1,120,264)
2003	166,427,352	25,274,405	581,234,755	(1,004,673)
2002	52,491,109	11,952,874	99,420,774	(276,655)
2001	20,582,162	12,700,489	(30,866,740)	\$1,338,517

The preceding schedule reflects the effects of the Marketing Agreement signed June 5, 2002, between the Company and Legacy Marketing Group. The decrease in premiums from

2003 to 2004 was caused by a decline in annuity sales related to the downgrading of the ultimate parent company by several rating agencies.

The preceding schedule also reflects changes in the Company's reinsurance program in 2001. On January 16, 2001, the Delaware Department of Insurance approved an amendment to a reinsurance agreement between the Company and Republic-Vanguard Life Insurance Company. The amendment increased the coinsurance from 80% to 100% on all annuity business covered under the existing treaty. As a result, premiums ceded under this treaty during 2001 were \$31,655,127 causing total premiums to be negative.

REINSURANCE

Assumed

The Company was not a party to any agreements whereby it assumed risks.

Ceded

The Company ceded business to three different reinsurers, including two affiliates, under the provisions of five different agreements. Following is a summary of the various reinsurance contracts whereby risks were ceded as of December 31, 2004:

Direct premiums	\$372,872,682
Assumed	0
Ceded	<u>(335,597,021)</u>
Net premiums	<u>\$37,275,661</u>

Agreement with SCOR Life Insurance Company

Flexible Premium Deferred Annuity Coverage

This agreement, effective October 1, 1991, was initially with Republic-Vanguard Life Insurance Company, which is now known as SCOR Life Insurance Company. At the inception

of this agreement, these companies were not affiliates. With the purchase of this Company by the Credit Suisse Group on August 20, 1998, the companies became affiliates.

Effective June 30, 2001, this agreement was amended, with approval by the Delaware Department of Insurance, to increase the coinsurance to 100% of net retained business issued January 1, 1991 and after. The reserve credit taken under this agreement was \$141,961,701 at December 31, 2004.

Agreements with SCOR Life U.S. Re Insurance Company

The Company is a party to three different agreements with SCOR Life U.S. Re Insurance, the immediate parent company.

Accelerated Benefit Life Coverage

This agreement, effective May 1, 1993, was initially with Winterthur Life Reinsurance Company. At the inception of this agreement, the companies were not affiliates. With the purchase of this Company by the Credit Suisse Group on August 20, 1998, the Companies became affiliates. With the purchase of this group on December 18, 1998 by Partner Re Ltd, Winterthur Life Reinsurance Company became known as PartnerRe Life Insurance Company of the U.S. With the purchase of this group on August 2, 2000 by SCOR Financial Services Ltd., PartnerRe Life Insurance Company of the U.S. became known as SCOR Life U.S. Re Insurance Company.

This agreement provides 80% coinsurance on accelerated benefit life insurance policies issued on or after May 1, 1993. Management of this Company withdrew from this market in December 1994; however, the agreement continues to provide coverage for this line. The Company recorded a reserve credit under this agreement of \$178,193 at December 31, 2004.

Equity Indexed Annuity 80% and 10% Coinsurance

These agreements, both effective June 1, 2002, provide coinsurance on annuities issued on or after June 1, 2002 in any jurisdiction. These agreements were approved by the Delaware Department of Insurance.

The first agreement provides 80% coinsurance. The second agreement is a funds withheld treaty, which provides an additional 10% coinsurance. The Company recorded reserve credits under these two agreements of \$860,399,868 at December 31, 2004.

Company officials stated that the 10% coinsurance agreement will be recaptured in 2006.

Agreements with New Era Life Insurance Company

Flexible Premiums Deferred Annuity Coverage

Effective December 31, 1995, the Company entered into agreements with New Era Life Insurance Company consisting of a master reinsurance agreement and four sub-agreements. The agreements provided for 100% coinsurance of annuity business written by the Company from September 1, 1990, to September 30, 1991, followed by the assumption of that business.

The agreements provided that, if any required regulatory approval for assumption could not be obtained with respect to a coinsured contract, the coinsured contract would continue to be reinsured by New Era. Eight policies continue to be reinsured under those provisions. These policies are administered by New Era, along with all other policies assumed.

The assets supporting the reserves were held in trust and a request was made that the Delaware Insurance Department hold a deposit in the amount of the liability not assumed under the contract and approve termination of the trust agreement. That request was approved on April 19, 2002 by the Delaware Department of Insurance.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure.

The Company's general ledger and accounts payable systems do not interface with either the insurance or investments systems. All journal entries are created outside the general ledger and manually posted each month. Supporting documentation for each month's activity is filed with that month's final general ledger and summary trial balance. The Company uses extensive Lotus and Excel workbooks to accumulate data and to prepare monthly journal entries.

Significant portions of the various transactions are processed elsewhere with different accounting systems. Under the terms of the agreement described under the Territory and Plan of Operation section of this Report, premiums, withdrawals/surrenders, and some reinsurance reporting/financial transactions are processed by Legacy Marketing Group. Under the terms of the Service and Expense Allocation Agreement described in the Management and Service Agreements section of this Report, investments, federal income taxes, allocated expenses, and other employee benefit transactions are processed by the SCOR office in Dallas, Texas. In addition, portions of the reinsurance and operating expense transactions are also processed by the SCOR office in Dallas, Texas.

During the examination the Company's books and records were reviewed and compared to reported items and values in the Annual Statements. A trial balance for the final year under review was secured and traced to a copy of the Company's Annual Statement.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2004.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Schedule of Examination Adjustments

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Write-ups on the individual accounts in the Notes to the Financial Statements section of this Report are presented on the “exception basis.” Only comments relative to adverse findings, material financial changes, or other significant regulatory concerns are noted.

Assets
December 31, 2004

	Ledger <u>Assets</u>	Assets not <u>Admitted</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 202,763,335	\$ 0	\$ 202,763,335	
Common stocks	434,579		434,579	
Mortgage loans on real estate	9,964,967		9,964,967	
Cash and short-term investments	6,563,978		6,563,978	
Policy loans	276,457		276,457	
Aggregate write-ins for invested assets	7,453,726		7,453,726	
Investment income due and accrued	2,220,344		2,220,344	
Life insurance premiums and annuity considerations deferred and uncollected	4,988		4,988	
Other amounts receivable under reinsurance contracts	24,707		24,707	
Current federal income tax recoverable	271,954		271,954	
Net deferred tax asset	1,713,738	1,181,818	531,920	
Other assets nonadmitted	11,838	11,838	0	
Prepaid expenses and deposits	<u>5,497</u>	<u>5,497</u>	<u>0</u>	
Total Assets	<u>\$ 231,710,106</u>	<u>\$1,199,152</u>	<u>\$ 230,510,954</u>	

Liabilities, Surplus and Other Funds
December 31, 2004

		<u>Note</u>
Aggregate reserve for life policies and contracts	\$ 99,809,856	1
Aggregate reserve for accident and health policies	5,601	
Liability for deposit-type contracts	537,531	
Policy and contract claims: Life	528,826	
Policy and contract claims: Accident and health	788	
Dividends apportioned for payment	82,240	
Interest maintenance reserve	182,040	
Commissions to agents due or accrued – life and annuity	7,896	
General expenses due or accrued	150,919	
Taxes, licenses and fees due or accrued	78,076	
Amounts withheld or retained by Company as agent or trustee	56,861	
Remittances and items not allocated	4,251,064	
Asset valuation reserve	439,903	
Funds held under coinsurance	93,742,537	
Payable on reinsurance ceded	<u>6,032,867</u>	
 Total Liabilities	 <u>\$ 205,907,005</u>	
 Common capital stock	 \$ 2,550,000	
Gross paid in and contributed surplus	22,709,605	
Unassigned funds (surplus)	<u>(655,656)</u>	
 Total Capital and Surplus	 <u>\$24,603,949</u>	
 Total Liabilities, Surplus and Other Funds	 <u>\$ 230,510,954</u>	

Summary of Operations
December 31, 2004

Income:

Premiums and annuity considerations	\$ 37,275,661	
Considerations for supplementary contracts with life contingencies	70,315	
Net investment income	4,096,137	
Amortization of interest maintenance reserve	98,652	
Commissions and expense allowances on reinsurance ceded	37,317,848	
Service fee income	2,700	
Miscellaneous income	10,412	
Options income	2,986,760	
Total Income		\$ 81,858,485

Expenses:

Death benefits	\$ 139,357	
Annuity benefits	2,002,165	
Disability benefits and benefits under accident and health policies	10,249	
Surrender benefits and withdrawals for life contracts	4,849,278	
Interest and adjustments on contract or deposit-type contract funds	(74,753)	
Payments on supplementary contracts with life contingencies	2,380	
Increase in aggregate reserves for life and accident and health policies and contracts	32,469,727	
Commissions on premiums, annuity considerations and deposit-type funds	41,621,887	
General insurance expenses	1,530,993	
Insurance taxes, licenses and fees	312,874	
Total Expenses	<u>\$ 82,864,158</u>	

Net loss from operations before dividends to policyholders and federal income taxes	(1,005,673)
Dividends to policyholders	<u>78,322</u>

Net loss from operations after dividends to policyholders and before federal income taxes	\$ (1,083,995)
Federal income taxes incurred	<u>36,269</u>

Net Loss	<u>\$ (1,120,264)</u>
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Capital and Surplus Account
December 31, 2003 to December 31, 2004

Capital and Surplus, December 31, 2003	\$ 25,274,405
Net Loss	\$ (1,120,264)
Change in net unrealized capital gains	133,250
Change in net deferred income tax	455,378
Change in nonadmitted assets and related items	79,056
Change in asset valuation reserve	(217,877)
Net change in capital and surplus for the year	<u>(670,456)</u>
Capital and Surplus, December 31, 2004	<u>\$ 24,603,949</u>

Examination and Surplus Changes

There were no examination adjustments made.

NOTES TO THE FINANCIAL STATEMENTS

<u>Note 1. Aggregate reserve for life policies and contracts</u>	<u>\$ 99,809,856</u>
Liability for deposit-type contracts	<u>537,531</u>
Policy and contract claims: Life	<u>528,826</u>
Policyholder Dividends Apportioned for Payment	<u>82,240</u>

INS Consultants, Inc. (INS Actuaries) was retained by the Delaware Department of Insurance to conduct a review of the Company's reserving methodologies and adequacy, and review the above listed annual statement line items. The actuarial staff at the Company provided the consulting actuary with their statement of actuarial opinion and the supporting actuarial data and documents. Additional data, as requested by the INS Actuaries, was also provided by the Company actuaries.

The period under examination covered calendar years 2002, 2003, and 2004, with the primary emphasis of the examination being balance sheet items as of December 31, 2004. The

INS Actuaries' findings and recommendations are presented, followed by a description of the balance sheet items and the examination work performed thereon.

FINDINGS and RECOMMENDATIONS

General

As of December 31, 2004, the Company's net reserves were held primarily for paid-up limited pay life insurance, equity-indexed deferred annuities and supplementary contracts with and without life contingencies.

Asset Adequacy Analysis

INS reviewed the asset adequacy analysis compiled as part of the Actuarial Opinion Memorandum (AOM) for 2002, 2003 and 2004. Based on that review, INS has accepted the Company's conclusion that no additional actuarial reserves were required as of December 31, 2004. However, INS has included a number of recommendations intended to ensure that future AOMs are more thorough in their presentation.

Certificate of Reserve Valuation

As part of the annual certificate of reserve valuation procedure, INS reviewed the December 31, 2004 Exhibit 5 and Exhibit 7 reserves. During that process, workpapers supporting these liabilities were reviewed and found to be in order, and INS' reconciliation work from that procedure has been relied upon for the current examination. However, reserves for the block of 20-pay life insurance business do not appear to provide for immediate payment of claims, as required by National Association of Insurance Commissioners Actuarial Guideline 32 (NAIC AG32). It is therefore recommended that future valuations of the 20-pay life block be calculated in compliance with NAIC AG32. Also, the valuation extract file provided in support

of income annuities did not contain sufficient information to calculate reserves at the individual contract level. It is therefore recommended that future income annuity valuation extract files include data pertaining to annuity form, issue age, gender, first payment date, and benefit payment amount and mode.

Reinsurance

The Company coinsures a nominal portion of the risks associated with accelerated benefit life insurance policies and significant portions of its deferred annuity business. Most of the deferred annuity reinsurance is either with SCOR Life Re or SCOR Life Insurance Company (both are affiliates). INS reviewed the two reinsurance treaties which became effective during the examination period and the related reinsurance ceded reserve credits taken in Schedule S. INS' review indicated that the reinsurance agreements transfer risk and are structured in compliance with Delaware Insurance Regulation 1002. Therefore, reinsurance ceded reserve credits taken seem appropriate.

Data Validity

The examination included a verification of the accuracy of the underlying data used to calculate reserves. Samples of randomly selected policies from the Company's business segments were used to test the validity of valuation data. Inclusion testing was also performed in order to ensure that valuation files are essentially complete. The policy sample tests indicated an absence of errors in the underlying data used for valuation. The inclusion testing indicated that the valuation files are complete, but substantive analysis during the claim adequacy testing indicated that the pending claim files are not complete and the equity indexed annuity (EIA) deferred annuity valuation extract file is redundant. However, no financial adjustments are recommended since reinsurance ceded credits bring the adjustments below the examination

materiality level.

Reserve Analysis

Reserves were reviewed for compliance with standard valuation laws, applicable National Association of Insurance Commissioner (NAIC) Actuarial Guidelines and Model Regulations. Reserve trends and rollforward analyses were also performed and generally produced reasonable results. Reinsurance reserve credits were reviewed and appeared reasonable. Reserves for sampled contracts were calculated in accordance with standard actuarial practice. Claim liabilities appeared acceptable in the aggregate, but the liabilities for pending claims (due and unpaid and in course of settlement) and incurred but unreported (IBNR) claims appeared understated; and since not all deferred annuity reserves were removed from the EIA valuation extract file for reported EIA claims, the EIA deferred annuity reserve appeared overstated.

Recommendations

It is recommended that future AOMs:

- Include a discussion of the risks involved with all major actuarial liabilities of the company.

- Include a tabular presentation of the initial balance sheet used for CFT analysis; if the projection begins on a date other than December 31st, also include a comparison of the liabilities as of both dates and a statement that the conclusions drawn would remain the same.

- Include details of projected cash flow items.

- Identify and discuss the adequacy of the assets supporting liabilities tested by methods other than CFT analysis. Also identify the assets that are intended to support liabilities that are excluded from asset adequacy analysis.

It is also recommended that:

- Future valuations of the 20-pay life block be calculated in compliance with NAIC Actuarial Guideline 32.

Future income annuity valuation extract files include data pertaining to annuity form, issue age, gender, first payment date, and benefit payment amount and mode.

Liabilities for life and annuity IBNR claims be established and reviewed annually. This is a carryover recommendation from the previous examination which the Company has not addressed. Company officers have asserted that the financial effect of establishing liabilities for life and annuity IBNR claims is minimal because of the reinsurance agreements in place. Nevertheless, Company officers have assured INS such claims will be established and reported in the December 31, 2005 Annual Statement.

The Company should strengthen its procedures with regard to the processing of and financial accounting for claims.

Conclusion

The balance sheet items enumerated in the examination scope appear fairly stated and are calculated using valuation parameters which appear to be free of any material errors that would affect reserve calculations. With the exception of the pending claim files, valuation extract files appear to be complete; failure to remove policies reported as death claims indicates the EIA valuation file is redundant; however, no financial adjustments are recommended since reinsurance ceded credits bring the adjustments below the examination materiality level.

Based on the above discussions and analysis, INS has concluded that the December 31, 2004 balance sheet items covered in the examination scope appear fairly stated. They have been accepted for the purpose of this report.

Based on this analysis, INS concluded that the Exhibit 7 supplemental contract reserve is fairly stated. The amount reported by the Company on Page 3, Line 3 and in Exhibit 5 of the December 31, 2004 Annual Statement has been accepted as stated for the purpose of this report.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were ten recommendations made in the prior examination report. The Company's compliance with prior examination recommendations was reviewed during the current examination.

It has been determined in the current examination that all of the prior recommendations have been complied with, except as noted below.

- The examination reports as of 1998 and 2001 recommended that questions in the General Interrogatories of the Annual Statement be answered to accurately reflect the actions of the Board of Directors. During this examination, it was noted that the Bylaws were amended twice and the Articles of Incorporation were restated. None of these changes were properly disclosed in the General Interrogatories of the Annual Statement.
- The examination reports as of 1998 and 2001 recommended that any changes to the Bylaws or Articles of Incorporation be filed with the Delaware Department of Insurance. During this examination, it was noted that the Bylaws were amended twice and the Articles of Incorporation were restated. None of these changes were filed with the Delaware Department of Insurance.
- The examination reports as of 1998 and 2001 recommended that the Company comply with the provisions of Section 4919 of the Delaware Insurance Statutes regarding proper reporting of changes in the principal officers and directors of the Company. During this examination, it was noted that the Company did not comply with Section 4919 of the Delaware Insurance Statutes regarding the proper reporting of changes in its directors.
- The examination reports as of 1998 and 2001 recommended that the Company report all transactions with affiliates as required in the *NAIC Annual Statement Instructions for Life*

and Accident and Heath Insurance Companies. During this examination, it was noted that transactions with affiliates were not properly reported in the General Interrogatories of the 2002, 2003, and 2004 Annual Statements.

- The examination report as of 2001 recommended that the Company hold an appropriate IBNR for life insurance in future annual statements. During this examination, it was noted that the Company did not comply with this recommendation.
- The examination report as of 2001 recommended that IBNR be tested each year by examining actual claims against the estimated IBNR. During this examination, it was noted that the Company did not comply with this recommendation.

SUMMARY OF RECOMMENDATIONS

Management and Control

- It is again recommended that any future change to the bylaws or Articles of Incorporation be properly disclosed in the General Interrogatories of the Annual Statement and that such changes be filed with the Delaware Department of Insurance. (Page 6)
- It is recommended that the Board of Directors review all examination reports and that the minutes include a record of that review and discussion. (Page 7)
- It is again recommended that the Company comply with Section 4919 of the Delaware Insurance Statutes and promptly notify the Delaware Commissioner of Insurance of changes in its officers and directors. (Page 8)

Management and Service Agreements

- It is again recommended that the Company properly report all transactions with affiliates as required in the *NAIC Annual Statement Instructions for Life, Accident & Health Companies*. (Page 10)

Territory and Plan of Operation

- It is recommended that the Company take such steps as are necessary to ensure compliance with all provisions of Delaware Insurance Statutes, Chapter 18 Managing General Agents Act. (Page 13)

Asset Adequacy Analysis

It is recommended that future AOMs:

Include a discussion of the risks involved with all major actuarial liabilities of the company.

Include a tabular presentation of the initial balance sheet used for CFT analysis; if the projection begins on a date other than December 31st, also include a comparison of the liabilities as of both dates and a statement that the conclusions drawn would remain the same.

Include details of projected cash flow items.

Identify and discuss the adequacy of the assets supporting liabilities tested by methods other than CFT analysis. Also identify the assets that are intended to support liabilities that are excluded from asset adequacy analysis. (Page 25)

Certificate of Reserve Valuation

It is recommended that:

Future valuations of the 20-pay life block be calculated in compliance with NAIC Actuarial Guideline 32.

Future income annuity valuation extract files include data pertaining to annuity form, issue age, gender, first payment date, and benefit payment amount and mode.

Liabilities for life and annuity IBNR claims be established and reviewed annually. This is a carryover recommendation from the previous examination which the Company has not addressed. Company officers have asserted that the financial effect of establishing liabilities for life and annuity IBNR claims is minimal because of the reinsurance agreements in place. Nevertheless, Company officers have assured INS such claims will be established and reported in the December 31, 2005 Annual Statement.

The Company should strengthen its procedures with regard to the processing of and financial accounting for claims. (Page 26)

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2004</u>	<u>December 31, 2001</u>	<u>Increase or (Decrease)</u>
Assets	\$ <u>230,510,954</u>	\$ <u>20,582,162</u>	\$ <u>209,928,792</u>
Liabilities	\$ 205,907,005	\$ 7,881,673	\$198,025,332
Capital and Surplus	<u>24,603,949</u>	<u>12,700,489</u>	<u>11,903,460</u>
Totals	\$ <u>230,510,954</u>	\$ <u>20,582,162</u>	\$ <u>209,928,792</u>

In addition to the undersigned, Barry C. Armstrong, CFE; Joseph M. Funkhouser; and INS Consultants, Inc., participated in the examination.

Respectfully submitted,



Patricia Casey Davis, CFE
Examiner In Charge
State of Delaware
Northeastern Zone, NAIC